

September 27, 2002

To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

**POLICY ISSUES REGARDING DEPARTMENT OF MENTAL HEALTH'S
APPROPRIATION ADJUSTMENT FOR THE EARLY AND PERIODIC SCREENING,
DIAGNOSIS, AND TREATMENT (EPSDT) PROGRAM
(ITEM NO. 35, AGENDA OF OCTOBER 1, 2002)**

This is to advise your Board of policy issues related to the Department of Mental Health's (DMH) agenda item involving a \$105 million appropriation adjustment to pay mental health contractors, including \$42.2 million in additional funding using EPSDT-State General Fund (SGF) dollars.

To date, the State has not provided written confirmation regarding the amount of Los Angeles County's allocation of FY 2002-03 EPSDT- SGF funding. Without a firm commitment from the State as to the amount of available FY 2002-03 EPSDT-SGF funding, the County risks that its General Fund dollars will be required to finance the EPSDT program.

This memo provides a discussion of: 1) the State's intent to advance 75% of the County's estimated program costs; 2) DMH's ability to manage growth of the EPSDT program; and 3) a written assurance from the State regarding the total EPSDT-SGF dollar allocation available to Los Angeles County for FY 2002-03.

Background

Due to the growth of the EPSDT program and the State's payment structure, the County has experienced significant payment delays related to this program. This occurs because the County pays its contractors soon after services are provided, but it does not receive State reimbursement for much of those services until almost two years after fiscal year-end. To address the Board's concern regarding the State's late payment of EPSDT-SGF claims, your Board adopted several motions regarding this program on June 26, 2002.

In June 2002, DMH estimated that the County's General Fund would incur a potential charge of \$27 million or more due to State EPSDT payment delays. Ultimately, due to higher than expected other revenues, DMH was able to close its FY 2001-02 books without an infusion of County General Fund dollars. However, the State payment delay issue has not been resolved. DMH currently has prior year EPSDT-SGF unpaid claims from the State totaling \$82.5 million, including \$28.1 million related to FY 2000-01 services, and \$54.4 million related to FY 2001-02 services.

The State recently indicated its intent to pay \$21.8 million to the County for FY 2001-02 claims. The State also indicated its desire to pay \$16.9 million to the County for unpaid FY 2000-01 claims, but indicated that it cannot disburse these funds until it obtains additional spending authority.

State's Intent to Advance 75% of Program Costs

Under the EPSDT program, the State should provide advance funding to DMH for approximately 75 percent of the estimated SGF portion. The remaining 25 percent is paid after the completion of an 18 - 24 month cost settlement process. County cash flow issues arise because:

- State advances have not kept up with actual service levels due to the EPSDT program's very high growth rate. As a result, the State only advanced about 49 percent of the County's actual EPSDT-SGF costs during FY 2001-02, instead of 75 percent.
- The State's 18 - 24 month cost settlement process is significantly longer than other State programs such as Medi-Cal. During this lengthy period, the County cannot access State reimbursement.

DMH continues to work with the State to increase the percentage of funds advanced by the State, and to modify the payment methodology EPSDT-SGF claims. For example, DMH has proposed to the State that the County be advanced a 95% level consistent with the existing provisions for other allocated State General Funds. Discussions continue but the State has not agreed to increase the County advance or to provide full payment within twelve months.

Managing Growth of the EPSDT Program

On July 26, 2002, DMH provided to the Board a draft plan to manage EPSDT program growth while continuing to meet the federal mandate to provide EPSDT services.

Managing EPSDT growth rates poses special challenges to ensure that services are available to all who are entitled to them. Currently, DMH is awaiting direction/guidelines from the State regarding the implementation of managed care principles. Upon receipt of the State's managed care principle guidelines, DMH will be able to assess the impact on the growth of the EPSDT program.

DMH indicates that the estimated FY 2002-03 service levels are primarily based on May 2002 service levels and therefore, do not include program growth. However, it should be noted that the program continued to expand throughout 2001-02, and the EPSDT-SGF service levels reflected in the Board letter are \$33 million greater than DMH's FY 2001-02 full year actual expenditures of \$105 million.

Assurance from the State Regarding the Total EPSDT-SGF Allocation

DMH is working to obtain a letter from the State providing a firm determination of the total EPSDT-SGF dollar allocation available to Los Angeles County for FY 2002-03. This State letter will allow DMH to confirm the availability of State funds, and to determine the potential need for future reserves. If necessary, the CAO will work with DMH to identify adequate resources to fully fund any future reserves required for the EPSDT program.

Summary

Upon receipt of appropriate State written assurance of sufficient and timely State cash advances for the EPSDT program, this office can recommend that your Board approve this item.

Absent such State assurance, we recommend that your Board fully consider the potential impact of this action. Although the State is obligated to reimburse the County at some point, the timing and methodology of the State's EPSDT-SGF reimbursement process creates risk to the County. The proposed budget adjustment authorizes DMH to expend funds for which revenue may not be received timely, thereby requiring the County to divert funds to cover the potential shortfall.

If you have any questions or need additional information, please call me, or your staff can call James Jones of my staff at 974-1128.

DEJ:DL

JEJ:RP:kd

c: Executive Officer, Board of Supervisors
County Counsel
Auditor-Controller
Director, Department of Mental Health